

Argentina – A New Mining Finance Frontier?

It is rather ironic that after over ten years of the Brazilian “ascendancy”, it should now be that Argentina looks the most promising place in Latin America and Brazil should be wracked by economic problems, corruption and protests. But ever was it thus that Argentina is under-appreciated while Brazil is always “the country of the future and always will be” as the other Latin Americans rather ironically observe. Despite Brazil’s long period “in the sun”, even a cursory visit to Argentina shows that the more southerly nation has a more dominant middle class and much better infrastructure and education, with less poverty and crime than its northern neighbor.

Whatever advantages Argentina may have it always seems to let them slip every fifteen to twenty years through some lapse into populism. Another dark phase has just ended with the democratic ousting of the abysmal Cristina Kirchner late last year and in time-honoured tradition there has been a massive reaction with a swift undoing/reversal of many of the idiocies, inconsistencies, blockages and boondoggles that the rampantly corrupt former administration had implemented for its greater personal enrichment. Chief amongst the initial changes were a reversal of many barriers to imports, punitive taxes on exports and freeing up the exchange rate. Since then the government has moved on to some sort of accommodation with the “hold outs” on previous debt restructuring (some vulture funds with dubious support of the US “legal” system). Next up is unravelling the byzantine fuel subsidies and reforming the mining sector.

The Ministerial Roadshow

I was invited this week to an event at the Argentine embassy

in London that was essentially a “meet the ministers” opportunity. The speakers were Miguel Braun, Trade Secretary and Lucio Castro, Secretary of Productive Transformation. Prominent in their speeches was the issue of prioritizing mining in Argentina. Even in the days of Menem (who reformed the mining code and decentralized decision making) or Cristina Fernandez de Kirchner (who was pro-mining as long as it danced to the many conflicting tunes that the government was playing) there was little overt prioritization of mining because, for the urban masses of Argentina, mining was an obscure thing not branded on to the national consciousness like it is in Australia, Canada or South Africa. Much of this lack of perception of the sector and its potential originates in the virtual absence of mining between 1947 and the late 1990s. In any case it is now seen as one of the productive (and export-earning) pillars of the new regime.

Your intrepid correspondent was itching to ask a question by the time the Q&A came around. The trade attaché had arranged for me to go up afterwards and talk about mining but I could not resist the temptation, given that nothing had been said about the Argentine stock market, to mention the subject in front of the audience. I firstly dropped the statistic that listings had gone from over 600 in the 1970s to less than 100 these days and that volumes had shriveled under the dual assault of the hostile government of the undearly departed CFK regime and the on-going mediocrity of the cabal of stockbrokers that have had their death like grip on Argentine equity markets for well past their “use-by” date. This came totally out of left field and left the ministers floundering but hopefully it has added capital market reform onto the agenda as well. Clearly though they knew the dire statistics on the shrunken number of listings (most in the economic cabal in Argentina do not) and I think the issue resonated as a “must remember to address this” mental note for future action.

The Holy Grail of Mining Listings

There was method to my questioning. There has not been a listed miner on the Argentine stock exchange since before the Second World War.

It's now nearly twenty years since, when living and operating as a stockbroker in Buenos Aires, I tried to convince the late, lamented Minera Andes to list itself on the Argentine stock exchange and diversify its investor base to include emerging market players rather than just mining investors.

Since that time, the only development that has managed to tempt anglophone mining managements out of their comfort zone was the launch of the Lima Venture Exchange, which is an offshoot of Peru's principal trading platform the Lima Bolsa. The Lima Venture appears to have gone somewhat by the wayside and been merged into the main listings of miners. This would make sense as some of the companies listed are veteran producers rather than "venture" in any way. Southern Copper is an NYSE-listed company that is enormous.



Our thesis is that all Latin markets represent an untapped source of funds from smaller savers and wealthy investors as well as institutions and other portfolio investors. In particular Argentines are well-padded with funds and hold minimal levels of personal debt (most properties are owned outright and mortgages are a rarity). This means there is a large amount of funding that is available for mobilization. Before the change of government it would have been a waste of time to consider activating this. Indeed it would have bordered on the irresponsible to urge investors into any listed situation there. But today the situation has diametrically changed. Miners should be at the forefront of capitalizing on this.



Some Names to Conjure With

The table below shows the main players with an Argentine presence. There are undoubtedly others who are “hiding their light under a bushel” and shall start bragging about hidden assets when the country becomes fashionable again. But for now this is quite an impressive list and represents the type of players that have made Argentina the second largest gold producer in the continent.



Looking at this list, at least half are in the range of companies that could do with more financing to move their projects forward, while almost all could package up whatever they have and list the local subsidiaries on the Buenos Aires to make them self-funding or to raise funds for development elsewhere. Many of the projects in the hands of majors are somewhat long in the tooth. A good example is Alumbrera which is nearing its end of mine-life and could not really be sold even if they wanted to.

This is not just a list of foreign miners, this is a list of ALL miners because, believe it or not, Argentina does not have any Argentine-owned mines of note. This goes some way to explain why the sector has not had any of the local economy heavyweights going into to bat for the activity as they have had no skin in the game. Certainly listing miners on the local exchange and getting investors literally and figuratively “invested” in the industry would make the activity something more present for those denizens of the Buenos Aires banking district and middle class investors.

Conclusion

Metals prices are in recovery mode and we suspect that, in particular, Canadian miners will find that Toronto/Vancouver are still shallow ponds and then the attractions of secondary listings (or shifting main listings) in London, Latin America or even Frankfurt will start to exert a siren call upon miners

looking to escape the cycle of financing misery they have been in since 2011.

Capital markets are all about “follow the money” and if the money is not in Vancouver for one’s venture then what is one supposed to do? Sit in the office withering away waiting for a situation which may never turn.. to turn? If the money is in Latin America and most particularly in the pockets of local high net worths and the middle class then why would one not go there to seek it out? The argument that one cannot do it as one would have to translate annual reports or press releases into Spanish (or Portuguese) is a rather feeble one. Frankly if you can operate a mine in the country but you cannot translate a report or release then maybe you are not competent enough to be operating in that market.

Managements need to wise up. The Toronto and Vancouver mining worlds are only slightly less crowded than they were at their peak, but they are considerably more capital hungry and the investors are a quantum wiser as to what projects (and managements) they will back or not back. With the best will in the world there will NOT be the funds for the types of projects that were funded either pre-2008 or in the Dead-Cat Bounce years of 2009-2011. There will be some funds but these will be rationed and probably go to the companies that need the money the least or those that could borrow the money if they wanted. Those that are most needy and least creditworthy will be locked out.

It’s raining pennies from heaven for Argentine miners at the current time and the smart will turn their umbrellas upside down to catch some of them while the shower lasts.